FLIP THIS PENSION

How the Canada Mortgage and Housing Corp. closed its defined contribution pension and returned to an all-employee defined benefit plan

By Martha Porado

The Canada Mortgage and Housing Corp. is having déjà vu. After closing its defined benefit plan to new members in 2013 and introducing a defined contribution component, the organization is now reversing course completely, closing its DC plan at the end of 2017 and re-opening its DB plan to all employees on Jan. 1, 2018.

Stéphane Poulin, director of total rewards at the CMHC, says the initial move resulted in two classes of employees, which highlighted issues, including resentment among some employees that their colleagues were receiving a higher level of benefits.

“The perceived value of the benefits per employee was different, how they share the risk was different. And the flexibility of the plans was different for those two classes, so it was important to address that at the time,” he says.

“Creating two types of employees doesn’t make sense. People wanted to feel treated the same way. You experience that with employees day to day. You have a colleague who sits beside you and his total remuneration package doesn’t make sense. People wanted to provide that better benefit for members and have that shift back.”

In with the old, out with the new

The CMHC’s move to re-open its DB plan took a number of steps. First, the DC component of its original DB pension became a standalone DC plan on July 1, 2016, with Canada Revenue Agency approval. By the end of that year, it had transferred the entire balance of the DC component, about $6.9 million, into the new plan. And then a year later, it closed the DC plan to new entrants and re-opened its DB plan to all employees.

With employers much more likely to be closing their DB pensions these days, the CMHC is bucking the trend, says Riley St. Jacques, a partner and senior consultant at PBI Actuarial Consultants Ltd. “I would take this as really good news. Certainly, defined benefits are, in our opinion, the best type of structure to provide adequate income to all groups over defined contribution plans, but there are challenges around that. With the proper structure, hopefully, they can provide that better benefit for members and have that shift back.”

While it’s certainly a reversal of current pension trends, the re-opened DB plan isn’t exactly the same as its predecessor. Alongside the organization’s DC plan members, the 65 per cent of employees who were in the former DB plan were moved into the new one, with updated design features applying to everyone.

For instance, in the original plan in 2017, employee contributions were 8.15 per cent of salary, up to the year’s maximum pensionable earnings, and 10.4 per cent for earnings above that threshold, while the employer contributed 14.7 per cent of an employee’s pensionable pay.

The new plan allows staff to choose between contributing 5.25 per cent of their salary, up to the YMPE, for a smaller benefit, or 7.75 per cent, up to that threshold, for a larger one, while the employer contributes about 17 per cent of pensionable pay.

“You every year, they can change their view for the following year so it’s not something that you’re locked into,” says Poulin, noting the contribution percentage may shift in the future to ensure a 50/50 split between the employer and employees.

Also, the previous DB plan provided different benefits depending on whether the member was married or single. “We thought it was discriminatory that we were providing a benefit of different value just because of marital status at retirement,” says Poulin. “So we decided to change that to make a pension that was the same for everyone and, when someone needs cover — because of marriage, for a spouse — then they can convert the pension form to allow for survivor benefits.”

As well, the new plan offers conditional indexation rather than full indexation. “Without that we wouldn’t have been able to go ahead with a DB plan of this nature,” says Poulin.

Communicating this reality to members was a challenge, he adds, noting some employees perceived the change as a weakening of the plan. “We did a lot of communication and employee sessions to explain the reason for those changes.”

The message to members emphasized that conditional indexation helps to ensure the plan’s ongoing sustainability, says Poulin.

Ross Dunlop, a partner at Ellement, says stripping the ancillary benefits out of a DB plan is a good way to mitigate the costs without closing the plan completely. For example, he suggests amending indexation and offering less generous early retirement provisions. “So what I’m saying to my clients is . . . You can’t change the past, but what you can do is put in a cheaper DB plan going forward. Keep the core benefit. Raise the member contributions, but strip out or make the early retirement benefits less generous. And maybe strip out some indexing.”

In the CMHC’s case, it anticipates cost savings since it will no longer have to administer two plans. “Now that it’s going to be the same plan for everyone, there is going to be some transition or adjustment period because we just changed the pension plan and the provision, so there was a higher cost for making that change,” says Poulin.

“But over time we are expecting it’s going to be a less expensive, [single] plan for all the employees.”

Looking ahead

Sahebd Mohammad, the CMHC’s director of investment strategy and governance, stresses that the push to return to a DB plan for all employees had nothing to do with market conditions or an increased confidence in the plan’s ability to find a better return.

As well, the fund’s asset mix was reviewed in 2016, when the CMHC shifted to a more liability-driven investment strategy, and Mohammad doesn’t see that changing anytime soon. “We were a closed plan and the fact that we are now an open plan with younger members — obviously it does improve the long-term viability,” he says.

Among regulators, there’s a growing willingness to find middle ground in pension plan design, particularly where the employer and employees share the risk, says St. Jacques. “My hope would be that that would start to stop the trend from DB to DC, and to having a less of a DB-like pension.

“Those that should hopefully lead to a revitalization of DB-like plans because they are a better and more cost-effective scheme,” he adds.

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